



PREDICTED FED DECISION **-100 bps**

0.00%-0.25%

OPENFED OPTIMAL RATE **-25 bps**

0.75%-1.00%

KEY TAKEAWAY

The Committee expects the real Federal Reserve to cut 100 bps to the effective lower bound, while its own framework judges the loss-minimizing step to be a smaller -25 bps — a divergence of magnitude, not direction.

STATEMENT

The information reviewed at this meeting described conditions of acute distress. Activity was contracting sharply across nearly all Districts: the Chicago Fed National Activity Index stood at -2.68, initial jobless claims had reached 570,000, and unemployment had climbed to 6.7%, well above the 5.05% natural rate participants used as a reference. The Beige Book confirmed that labor conditions had weakened broadly and that lending was contracting as standards tightened. Financial-market strains were extreme by any measure — the financial stress index was pinned at its maximum of 1.0, the VIX stood near 58.91, and the Baa spread had widened to 6.06, evidence that credit markets were severely impaired and that borrowing costs were choking real activity. Against this backdrop, price developments posed no offsetting concern: core PCE inflation was 1.75%, below the 2% objective and easing, with subdued wage pressures and inflation momentum of only 0.11.

With no inflation risk to guard against, participants agreed that policy should ease; the disagreement was over how far. A majority weighed the 3-month T-bill spread of -0.98 against the current 1.0% funds rate as evidence that markets had effectively already priced the policy rate to near zero, and reasoned that with only 100 bps of conventional room remaining, that room should be deployed decisively now rather than held in reserve. On this view, incrementalism during a systemic credit seizure risks reinforcing a contraction spiral, and a full move avoids opening a destabilizing gap between market expectations and the action delivered. A single participant, while accepting that inflation no longer constrained cutting, favored preserving a small margin above zero and supported a smaller cut of 75 bps. On balance, the Committee's predictive judgment is that the real Federal Reserve will lower the target rate by 100 bps, taking policy to the effective lower bound.



The Committee's own deterministic framework arrived at a different magnitude. Its loss-minimizing recommendation was a cut of 25 bps, aligned with the first-difference rule's -25, which adjusts incrementally from the prior stance without over-relying on an uncertain r^* — estimated here at 1.769 — and reflecting mild inflation and unemployment momentum of 0.11 and 0.30. The framework flagged the reference rules as unreliable this meeting, which appropriately discounts the Taylor rule's +75 bps reading, plainly spurious given collapsing activity and below-target inflation. The balanced-approach and ELB-adjusted rules both pointed to -50, bracketing the recommendation on the easier side and confirming that easing is warranted. The framework's smaller step is best understood as respecting proximity to the effective lower bound: with the funds rate already at 1.0%, each cut spends scarce conventional ammunition, and a measured -25 bps is defensible as the disciplined optimal call.

Participants engaged seriously with that recommendation and accepted its direction while judging its size too cautious. Every member endorsed easing but read the extreme stress readings — the maxed stress index, the -2.68 activity index, the -0.98 T-bill spread — as justifying a larger front-loaded move than the point-estimate rules capture. The Committee's independent optimal conclusion, then, is that a cut is warranted and -25 bps is the loss-minimizing step under the framework's constraints, even as its members would themselves press for more given the depth of the crisis.

COMMITTEE VOTE

The Committee's predictive vote was 4-to-1 in favor of a 100 bps cut, with one member preferring 75 bps. On the framework's -25 bps recommendation, all five members returned a partial stance — agreeing with the direction of easing but not the magnitude.

NOTES

One participant dissented from the predictive majority in favor of a 75 bps cut rather than 100, reasoning that while inflation below target and falling removed the case against aggressive easing, the limited remaining conventional room argued for retaining a small margin above zero consistent with a more cautious orientation.